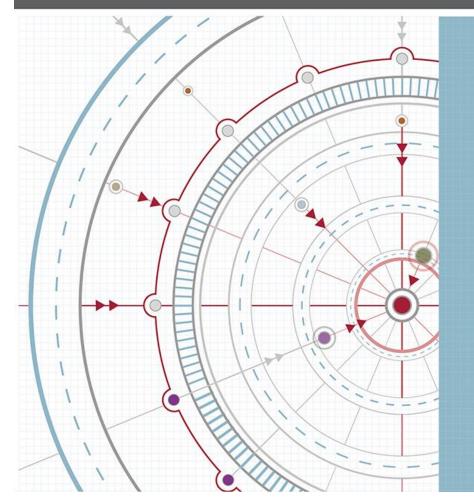
#### July 2019 FASB | IASB Joint Meeting



## IBOR Reform and the Effects on Financial Reporting

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## Agenda

- Project overview
- Proposals on the Exposure Draft
- Overview of feedback on the Exposure Draft
- Key themes on additional issues arising from the reform
- Following the IBOR reform
- Questions for the boards



## **Objective of the session today**

- To provide an overview of the proposals in Exposure Draft Interest Rate Benchmark Reform (proposed amendments to IFRS 9 and IAS 39) (ED) and the feedback received from stakeholders.
- To obtain feedback from board members if they have any observations relevant to this project.



- Two-phase project—addressing issues as progress is made towards replacing existing interest rate benchmarks such as interbank offer rates (IBORs) with nearly risk-free rates (RFRs).
- The IASB identified two groups of accounting issues:
  - Phase I—pre-replacement issues: Issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark RFR; and
  - Phase II—replacement issues: Issues that might affect financial reporting when an existing interest rate benchmark is replaced with RFR.



## **Proposals on the Exposure Draft**

Highly probable requirement	<ul> <li>When determining if a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.</li> </ul>	<ul> <li>Application of the proposed amendments are mandatory.</li> </ul>
Prospective assessments	<ul> <li>When performing prospective assessments, an entity shall assume that the interest rate benchmark on which the hedging instrument and hedged item are based is not altered as a result of the reform.</li> </ul>	<ul> <li>Specific disclosures required about the magnitude of the relief.</li> </ul>
Risk components	<ul> <li>An entity shall apply the separately identifiable requirement only at the inception of a hedging relationship.</li> </ul>	<ul> <li>Effective date—1 January 2020</li> </ul>

#### Other hedge accounting requirements did not change



## **Overview of feedback received**

ED proposals

**Feedback received** 

Few considerations before finalising ED

Highly probable and prospective assessments	<ul> <li>Strong support on the proposed amendments</li> <li>Relief required for the effects of the reform on IAS 39 retrospective assessment</li> </ul>	<ul> <li>The effects of the reform on IAS 39 retrospective assessment</li> </ul>
Risk components	<ul> <li>Agreement with proposals</li> <li>Relief required for macro hedge accounting relationships</li> </ul>	The effects of the reform on macro hedge accounting relationships
End of application	<ul> <li>Broad support but more application guidance is needed</li> </ul>	<ul><li>Enhance clarity</li><li>Add application guidance</li></ul>
Disclosure, transition & effective date	<ul> <li>Cost&gt;benefits on disclosures</li> <li>Clarify transition requirements</li> <li>Support for mandatory application and effective date—1 January 2020</li> </ul>	<ul> <li>Consider extent of disclosure requirements</li> <li>Clarify transition requirements</li> </ul>
		IFRS

# Key themes on additional issues arising from the reform

7

Relief for other hedge accounting relationships (eg foreign currency)

Changes made to hedge documentation

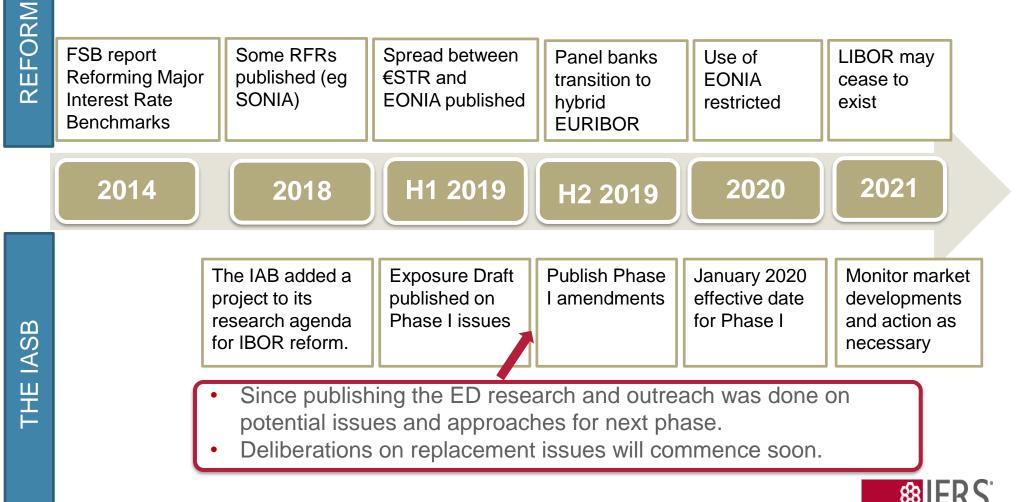
Relief from reclassification of gains or losses deferred in OCI Respondents highlighted additional issues arising from the reform to be considered in the next phase of the IBOR project Modification vs. derecognition of financial instruments

Other issues from applying IFRS 9 and other IFRS Standards



### Following the IBOR reform

The reform impacts multiple jurisdictions, with different transition approaches for different rates over different timeframes for example SONIA, EONIA, EURIBOR, SOFR.



- Do the boards have any questions about the proposals set out in the Exposure Draft or the feedback received?
- Do the boards have any observations or views to share on the issues listed in slide 7?



## **Get involved**



